Forex derivatives losses

*51. DR. (SHRIMATI) NAJMA A. HEPTULLA:
SHRI MAHENDRA MOHAN:

Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that forex derivatives losses may well turn out to be the subprime crisis for India Inc.;

(b) whether it is also a fact that the size of the potential Market-to-Market (MTM) losses at corporates is placed anywhere around Rs. 120-200 billion;

(c) if so, the details thereof;

(d) whether the exposure of banks operating in India, including foreign banks to derivatives grew 291 per cent in two years to reach Rs. 127.86 trillion by the end of 2007; and

(e) if so, the measures taken in this regard?

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM): (a) No, Sir. Reserve Bank of India (RBI) carried out special scrutinies in select banks which are active in derivative transactions. Further, a portfolio approach was adopted towards the derivative business offered by some of these banks, during the course of Annual Financial Inspections in 2008. These include ICICI Bank, Citibank, Yes Bank and State Bank of India. The RBI held discussions with the Chief Executives of 22 banks that were seen to be active in the business to assess the systemic impact. The Reserve Bank of India came to the conclusion that the forex derivative losses do not pose any systemic issue.

(b) and (c) As per the information furnished by RBI, the data submitted by the Banks indicate that the market-to-market (MTM) exposure of the banks on account of forex derivative transactions of corporates stood approximately at Rs. 27,300 crores. Company-wise details are not available with the RBI.

(d) The data on outstanding notional principal amount of the total contracts/derivatives of all scheduled commercial banks including foreign banks operating in India as on March 2005, March 2006, March 2007 and March 2008 are furnished below. However, the Credit equivalent of the notional principal is Rs. 2,73,234 crore.

(Amount in Rs. Crore)

March 2005	March 2006	March 2007	March 2008
26,86,443	40,55,775	73,50,235	1,43,22,964

(e) Reserve Bank of India had constituted an Internal Group to review the existing guidelines on derivative transactions undertaken by banks. Draft comprehensive guidelines on derivatives based on the recommendations of the Group were placed on the Bank's website for comments from all concerned. Based on the feedback received, the guidelines were suitably

revised and issued on April 20, 2007. The Guidelines enunciate the broad principles for undertaking derivative transactions. The emphasis is on the proper risk management framework and appropriate corporate governance practices. The focus is also on 'suitability' and 'appropriateness' of derivative products being offered by market-makers to customers (users) as also 'customer appropriateness'. The guidelines also cover extant instructions relating to rupee interest rate derivatives. Further, Prudential Norms for Off-Balance sheet exposure of banks were prescribed in August, 2008.

Increase in gas prices from KG Basin

*52. SHRI MOINUL HASSAN: Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:

(a) whether Government is considering a revision of gas price of Reliance Industries Ltd. (RIL) as and when the gas is a available from its KG Basin;

(b) whether the RIL is lending pressure on Government to raise the gas price at 4.20 dollars per unit based on global crude price of dollars 60 per barrel;

(c) whether ONGC is supplying gas at a price 2.2 dollar per unit; and

(d) if so, what is the basis of RIL's demand for raising gas price at 4.20 dollars per unit?

THE MINISTER OF PETROLEUM AND NATURAL GAS (SHRI MURLI DEORA): (a) to (d) The Production Sharing Contract (PSC) provides for pricing of gas on the basis of sales on arms length principles. The formula or basis on which the prices shall be determined for the purposes of determining the Government take is required to be approved by the Government prior to sale of natural gas to the consumers/buyers. Accordingly, Reliance Industries Limited (RIL) submitted a proposal on 18.5.07 for approval of gas price formula which was arrived at by following a bidding process.

The Government constituted an Empowered Group of Ministers to consider issues relating to pricing of natural gas produced under the New Exploration Licensing Policy (NELP) regime. It has been decided therein that the provisions of the NELP PSCs should be honoured. The price basis/formula for the purpose of valuation of natural gas has been approved by the Government in case of block KG-DWN-98/3 of RIL/Niko. The price obtained from the basis/formula comes to US$4.2 per million British thermal unit (MMBTU) for crude price greater or equal to US$60 per barrel.

Oil and Natural Gas Corporation Limited (ONGC) is supplying gas production from the nomination blocks at a price of Rs. 3200 per thousand cubic metre to the consumers of Fertilizer and Power Sector which is equivalent to US$ 2.02 at an exchange rate of Rs. 40 to one US$. This price was fixed by the Government under the Administered Price Mechanism in the Year 2005.

Credit Cards

*53. SHRI JAI PRAKASH NARAYAN SINGH: Will the Minister of FINANCE be pleased to state: